

FX Clearing Overview

Highlights of the clearing mandate

■ Who will be required to clear?

- Swap Dealers, Major Swaps Participants
- Other Financial Entities that are U.S. persons or whose trading activities have a significant impact on U.S. commerce.
 - Includes private funds, commodity pools and ERISA plans
 - Principal place of business does not apply to collective investment vehicles
 - Proposed prong (iv) on ownership
 - Subject to reopen in July 2013
- End-users that are not hedging or mitigating commercial risk

■ What products will be cleared and when?

- FX options and non-deliverable forwards.
 - FX spot, swaps and forwards are exempt
- High level steps in timeline
 - CCP accepts the type of swap and submits application to CFTC
 - CFTC opens comment period (e.g. 30 days)
 - CFTC determine that the swap must be cleared and makes determination.
 - Clearing requirement becomes effective, with potential implementation dates 90, 180 or 270 days after determination based on the type of entity

■ How will the products be cleared?

- Only registered Futures Commissions Merchants (FCMs) may act as clearing brokers for U.S. persons clearing swaps on a registered Derivatives Clearing Organization (DCO)
 - Registered DCOs: CME, ICE, LCH
- U.S. Entities that are required to clear and that are not clearing members of a CCP will have to establish accounts with FCMs

OTC Clearing documentation

	Clearing Member Documentation		
	FCM Model	European Model	
Counterparty Default Protection	U.S. Bankruptcy Code and CFTC regulations	CCP Rules (as delegated by UK Bankruptcy Act or equivalent)	
Overall Relationship	Client Agreement (Existing F&O Clearing documentation)	Existing F&O Clearing documentation	Existing ISDA documentation
OTC Clearing Relationship	FIA/ISDA based OTC Addendum for Cleared Derivatives	FOA/ISDA based OTC Addendum for Cleared Derivatives	Existing CCP specific Client Agreements and rules
Trading Execution Relationship	FIA/ISDA based Cleared Derivatives Execution Agreement	FOA/ISDA Cleared Derivatives Execution Agreement	